Supreme Court, U.S.
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No. 95-237

IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1995

SEBASTIAN INTERNATIONAL, INC.,

Petitioner,

v.

LONGS DRUG STORES CORPORATION,

Respondent.

ON PETITION FOR WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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September 7, 1995

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PARTIES TO THE PROCEEDINGS

Respondent does not dispute the description of the parties set forth in the Petition.

Respondent has no subsidiaries which are not wholly owned. Respondent has no parent.

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No. 95-237

In The
SUPREME COURT OF THE UNITED STATES
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SEBASTIAN INTERNATIONAL, INC.,
Petitioner,

v.

LONGS DRUG STORES CORPORATION,
Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

Respondent Longs Drug Stores Corporation ("Longs") respectfully submits this brief in opposition to the Sebastian International, Inc. ("Sebastian") Petition for Writ of Certiorari.

STATEMENT OF THE CASE

This case concerns a collective membership mark that a manufacturer has placed on its own products in addition to the manufacturer's trademark. The manufacturer (Sebastian)

is attempting here to turn the ordinary commercial act of selling a genuine product that bears this collective mark, into a Lanham Act (the "Act") violation. At issue is Longs's right under the trademark laws to sell genuine Sebastian products which it has lawfully purchased on the open U.S. market.

The court of appeals succinctly stated the pertinent background in its opinion. *Sebastian International, Inc. v. Longs Drug Stores Corp.*, 53 F.2d 1073, 1074 (9th Cir. 1995). Sebastian manufactures and distributes hair shampoos, conditioners and fixatives labeled and intended for home use by retail consumers.[1] It sells these products to professional salons, beauty stores, and other distributors that agree to sell exclusively to professional salons and their customers. Certain distributors sell these products to intermediaries who, in turn, sell them to nonsalon retailers. Sebastian has known for many years that nonsalon retailers in general, and Longs in particular, commonly sell its products.[2] Nevertheless, Sebastian's labeling and advertising

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[1] Contrary to what Sebastian implies (Petition, ¶2) and the "for professional use only" captions which frequently appear on its labels, the products in question in the instant lawsuit are not for professional use, but are packaged with instructions directed to and are intended for retail consumer use.

[2] Indeed, another federal court of the Third Circuit has previously found substantial evidence that Sebastian knowingly condoned product diversion by certain of its distributors with whom it has "close" financial ties. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 1988 WL 124718, n.3 (D.N.J., Nov. 18, 1988), *aff'd in part, rev'd in part*, No. 88-1995 (3d Cir. 1989)[nonpub. opn.]

disingenuously suggest that authentic Sebastian products cannot actually be purchased except at salons.[3]

Longs is a well-known operator of some 300 general merchandise stores and full service pharmacies, featuring high quality goods and services, including an extensive line of LONGS brand products. Longs sells genuine, first quality Sebastian products, obtained legally on the open U.S. market.[4] Longs does not make misrepresentations in connection with these sales. Longs does not sell "seconds" or nongenuine products. Longs does not post signs advertising either Sebastian's name or the mark asserted by Sebastian in this case. Longs simply sells Sebastian's authentic products, along with hundreds of other products, in a normal retail store setting.

In 1992, trying to take advantage of an obscure section of the Act for the express purpose of combating its so-called "diversion problem," Sebastian formed a club of itself and its own distributors, named the club "The Sebastian

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[3] Examples of Sebastian's misleading cautions on its labels are: "MANUFACTURED EXCLUSIVELY FOR SALE THROUGH AUTHORIZED SALONS, SALE BY ANY OTHER ENTITY IS PROHIBITED;" "SOLD ONLY IN PROFESSIONAL SALONS;" "BEWARE OF SEBASTIAN PRODUCTS PURCHASED IN PLACES OTHER THAN PROFESSIONAL SALONS."

[4] Contrary to what Petitioner suggests, as Petitioner is aware, discovery in the trial court has demonstrated that Longs has had no dealings with any Sebastian salon or distributor and has not purchased Sebastian products from anyone in privity of contract with Petitioner. Petition, ¶3, and at 10.

Collective Membership Program," and required that its distributors become members. Petition, ¶2.[5]

In addition to placing its SEBASTIAN trademark on the front of its products, Sebastian prints the "collective" mark, "Sebastian Collective Salon Member" (the "collective" mark) on the product back. Although this mark is federally registered, the Trademark Office required Sebastian to disclaim exclusive rights to the words COLLECTIVE SALON MEMBER, because of their descriptive meaning. Longs, who is not a member of Sebastian's club of distributors, kept selling Sebastian products, as it had for some seven years previously.

Sebastian filed suit against Longs on May 18, 1993, alleging that consumer confusion was likely to occur from Longs's so-called "use" of the collective mark in reselling Sebastian's manufactured goods, and that, therefore, Longs committed trademark infringement and unfair competition. The hearing on Sebastian's December 13, 1993 motion for a preliminary injunction was held January 31, 1994. App. A. The district court concluded that any confusion that might exist was caused by **Sebastian's** misleading labeling. App. 8A, 16A. The trial court indicated the motion would be denied on the basis of the first sale doctrine. App. 5A.

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[5] The typical commercial "collective," as contemplated by the Act, consists of a number of otherwise unrelated producers who form together, each member to sell its own products, such as the American Society for Aesthetic Plastic Surgery and the International Institute of Valuers. *See, e.g., Aloe Creme Labs, Inc. v. American Soc. for Aesthetic Plastic Surgery, Inc.*, 192 USPQ 170 (TTAB 1976). Thus, Sebastian's club, comprised only of its network of distributors which sell Sebastian-manufactured products, does not appear to be a true collective, and Sebastian's mark not a true collective mark.

Some six weeks later, without a further hearing on the merits, the trial court reversed itself and granted a preliminary injunction on March 15, 1993. Longs appealed, and the Ninth Circuit reversed.

According to Petitioner, Longs's mere sale of genuine Sebastian products *ipso facto* constitutes federal trademark infringement and unfair competition under 15 U.S.C. §§1114 and 1125(a). Nevertheless, the only alleged "acts" of misrepresentation, trademark infringement and unfair competition of which Petitioner complains are the mere sales of genuine products. The record does not support the existence of the alleged misrepresentations, which form the basis for Petitioner's "Question Presented" and, indeed, Petitioner's entire brief. The only representations made in this case are those made by Sebastian through the labeling on its products and in its advertising. Thus, the essence of Sebastian's claim below was that a Lanham Act violation arose from the mere act of stocking and reselling a genuine product that happened to bear a "collective" membership mark on the rear panel of the product's container.

MISSTATEMENTS IN THE PETITION

To Respondent's surprise and dismay, the Petition contains numerous material misleading statements and misstatements. In compliance with Supreme Court Rule 15.1, Longs notes the following major misstatements in the Petition:

1. The "evidence of confusion" advanced by Sebastian in the trial court (and therefore of record before the court of appeals) was sketchy and questionable. The sole

evidence of "confusion" was a single survey whose reliability was vigorously challenged. Contrary to Petitioner's claim (Petition ¶2), the district court did not find that "the public was confused about whether **Longs** was a collective member." *See* Petitioner's App. C3, C10. The district court recognized the survey's conclusion that a significant number of respondents might believe some selling drugstore was authorized by or affiliated with Sebastian. Petitioner's App. C10. But as the court of appeals correctly pointed out, such "confusion" is legally irrelevant and could not support the district court's order. *Sebastian*, 53 F.3d at 1076-7. The Ninth Circuit never reached the issue of whether the survey was inherently flawed and therefore of little probative value.

2. Petitioner attempts to mischaracterize the circuit court's ruling (and thus to create an alleged "conflict" with rulings of the Fifth and Federal Circuits) by claiming that the Ninth Circuit disapproves of restraints on resales of products. Petition, ¶4, n. 2, ¶5 and pp. 11-12. In fact, the Ninth Circuit's ruling simply confirms the longstanding principle that the **trademark laws** cannot be used by a manufacturer to restrain resales of **genuine** products. *Sebastian*, 53 F.3d at 1074. This is not an antitrust case, and there was no discussion of antitrust law as suggested by Petitioner. Petition at 6. Nor did the circuit court "[premise] its use of the first sale doctrine on a complete prohibition of vertical restraints on the resale of a product", as maintained by Petitioner. Petition at 11. This is strictly a trademark case, and it was decided on well-founded trademark principles.

3. Petitioner further distorts the lower courts' decisions by suggesting that the district court found that

Longs made actual misrepresentations, and that the circuit court ignored this. Petition, ¶5, and p. 8. In fact, Longs made no representations whatsoever concerning Petitioner's products, and there was no finding to the contrary.[6] The Ninth Circuit pointed this out specifically. *Sebastian*, 53 F.3d at 1075, 1076-7. The circuit court observed, "Nothing in the record suggests that Longs did anything more than stock and resell genuine Sebastian products lawfully acquired on the open market under the true Sebastian trademark -- the precise conduct excluded from the Lanham Act by the 'first sale' rule." *Id.* at 1076. Longs's activities did not constitute actual "misrepresentations." The circuit court correctly held that there should be no legal fiction that Longs made implied misrepresentations.

The Petition represents that the record contains evidence of overt misrepresentations and widespread public confusion. In reality, one finds a record that is sparse, evidencing no acts of misrepresentation, and with unresolved evidentiary issues regarding confusion.

4. Although Petitioner claims "the Ninth Circuit overlooked the distinction between collective membership marks and trademarks" (Petition, ¶5), the circuit court specifically addressed this issue and quoted the language of 15 U.S.C. §1054 which states:

> [C]ollective . . . marks . . . shall be registrable under this chapter, in the same

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[6] The trial court found merely that, "by selling [Sebastian] products bearing the collective mark, Longs is arguably misrepresenting to consumers that it is affiliated with or authorized by Sebastian or the Collective [and] that it provides [quality control, consultative services and charity contributions]." Petitioner's App. C10 (emphasis added).

> manner and with the same effect as are trademarks . . . and when registered they shall be entitled to the protection provided in this chapter in the case of trade-marks . . . .

Sebastian, 53 F.3d 1075, n. 6. In other words, collective marks are to be enforced no differently than other marks.

REASONS FOR DENYING THE PETITION

The Petition offers no reasonable basis for review of the circuit court's decision. The decision below did not involve the resolution of important or controversial legal principles not yet addressed by this Court, nor was it contrary to this Court's decisions. Indeed, Sebastian cannot seriously argue that there is a conflict among the circuits requiring this Court's intervention. Courts have consistently held that, with certain well-defined exceptions inapplicable in this case, the right of a producer under the **trademark laws** to control distribution of its product does not extend beyond the first sale of the product. Resale of the original article under the producer's trademark is neither trademark infringement nor unfair competition.

In its opinion below, evaluating whether there should be an exception in this case to the well-established "first sale" or "exhaustion" doctrine of trademark law, the Ninth Circuit Court of Appeals was completely faithful to both the rationale and guidelines set forth in the long judicial history. The court rejected Petitioner's attempt to circumvent this well-settled doctrine merely to enhance its distribution scheme. The Ninth Circuit declined to permit Petitioner's use of the **trademark laws** to enforce contracts limiting

resale against those who never signed those contracts. The circuit court's ruling reflects the application of pertinent and well-settled law to the specific facts of this case -- the resale of genuine, unaltered goods, bearing the producer's trademark, which the manufacturer has placed into U.S. commerce by a first sale. This Court, and all other courts of appeals that have explored similar issues, have reached the identical conclusion.

This result does not change even if consumers were misled by Sebastian's labeling and advertising. Petitioner's attempt to invoke the obscure "collective" mark section of the Lanham Act provokes no different treatment either, since the Act treats collective marks the same as ordinary trademarks. Finally, Petitioner's case is not enhanced by mischaracterizing the Ninth Circuit's decision as an "antitrust" decision. Consequently, the opinion of the circuit court does not present any question worthy of review by certiorari, and the Petition should therefore be denied.

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The Ninth Circuit's Opinion Is in Accord With Applicable Decisions of This Court And Other Federal Courts of Appeals.

Petitioner's argument -- and, indeed the very purpose of its strategy of creating the "collective" and marking its products as it did -- would favor the creation of a new trademark law remedy against the resale of branded goods absent the manufacturer's consent. Public policy, however, disfavors restrictions upon the free alienation of personal

property by a lawful purchaser in the absence of some particularized need which justifies the restraint.[7]

A. The Circuit Courts Consistently Apply the First Sale Doctrine to Prohibit Lanham Act Restrictions on the Mere Resale of Trademarked Goods.

The Ninth Circuit decision recognized, like all other federal courts that have addressed the issue, that there is no actionable Lanham Act "consumer confusion" in the mere reselling of genuine goods in their original packaging. This is because the mere reselling of genuine goods is not one of the "uses" of a trademark forbidden by the Lanham Act.[8]

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[7] The respected nine volume treatise Callmann, *The Law of Unfair Competition, Trademarks & Monopolies*, (4th ed. 1983), is one of only three major treatises on U.S. trademark law currently in print, and is unique in that it treats all aspects of unfair competition law as well as antitrust law, which helps to put trade identity issues in perspective. Professor Louis Altman, who has been the author of the treatise for some 14 years, agreed to submit a declaration in this case on behalf of Longs, on condition of being able to do so as a scholar, rather than as an advocate. According to Callmann, §21.13 (Fall 1993 Cum. Supp.): The now-reversed trial court's ruling improperly gave "any manufacturer a foolproof tool for keeping its goods out of the hands of unauthorized retailers, e.g., discounters, **a result that neither the trademark laws nor the antitrust laws have heretofore allowed.**" (Emphasis added.)

[8] Section 32 of the Act prohibits "use in commerce [of] any **reproduction, counterfeit, copy, or colorable imitation** of a registered mark . . . ." 15 U.S.C. 1114 (emphasis added). Sebastian itself applied its mark to product that Longs sold. Accordingly, Longs's sale of Sebastian products did not amount to use of a "reproduction, counterfeit, copy, or colorable imitation." This section therefore has no application to this case. Section 43a of the Act prohibits "[use] in commerce [of] any word . . . which -- (1) is likely to cause confusion . . . ." 15 U.S.C. §1125(a). "Use in commerce" occurs when the mark "is placed

Petitioner contends that the simple presence of a so-called "collective" mark, placed by Petitioner on Petitioner's products, falsely represents that Longs is a member of Petitioner's "collective" and is affiliated with Petitioner, and that Longs's sales somehow constitute the services of a salon member of Petitioner's "collective." Nevertheless, when, as here, a purchaser resells a trademarked article under the producer's trademark -- and nothing more -- there is no actionable misrepresentation under the Lanham Act. *See, Prestonettes v. Coty*, 264 U.S. 359, 368, 68 L.Ed. 731, 742 (1924) (Prestonettes permitted to use Coty's mark on repackaged and altered COTY products); *see, also, Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129-130, 91 L.Ed. 1386, 1390 (1947) (defendant not required to remove trademark from reconditioned goods identified as used or repaired). *A fortiori*, the same result obtains in the instant case where, in contrast to *Prestonettes* and *Champion*, it is obvious to the consumer that Longs is not a salon and does not render salon services. The situation is therefore similar to *H.L. Hayden Co. v. Siemens Medical Systems*, 879 F.2d 1005 (2d Cir. 1989), where the Lanham Act §43a claim was dismissed because the unauthorized distributor sold genuine trademarked product. The Hayden court found that customers "are well aware that what they purchase from [defendant] is simply the manufactured product and not its installation". *Id.* at 1023.

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in any manner on the goods or their containers or the displays associated therewith . . . ." 15 U.S.C. §1127. Since Longs did not place Sebastian's mark on anything, there is no use in commerce for purposes of the Act.

All other circuit courts that have considered this question have come to the same conclusion.[9] This is because "trademarks are not monopolistic grants like patents and copyrights." S. Rep. No. 1333, 79th Cong., 2d Sess. (1946) (quoting *Prestonettes*).[10] Indeed, Petitioner appears to concede that the first sale doctrine is valid, simply that it should not apply to collective membership marks. The Petition warps applicable law, however, by portraying exceptions to the first sale doctrine as based on consumer

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[9] *See, e.g., H. L. Hayden*, 879 F.2d at 1023 (2nd Cir.) (quality control concerns did not prohibit mail order sale of dental equipment requiring assembly), cited by Amicus COPIAT; *Independent News Co. v. Williams*, 293 F.2d 510, 515 (3d Cir. 1961) (second-hand periodical dealer permitted to sell magazines, with covers torn off, under original trademarks); *Matrix Essentials v. Emporium Drug Mart*, 988 F.2d 587, 590, 593 (5th Cir. 1993)(case factually very similar to the instant one; "Absent more culpable conduct on the part of the seller, we are unwilling to find misrepresentation in the mere act of putting a manufacturer's product on one's shelf and offering it for sale"); *Henry v. Chloride, Inc.*, 809 F.2d 1334, 1350 (8th Cir. 1987); *Matrix Essentials, Inc. v. Cosmetic Gallery*, Inc., 870 F.Supp. 1237, 1251-2 (D.N.J. 1994)(diverter's sale of unaltered hair care products not infringement; even sale of unaltered products in defaced containers not infringement).

[10] This is consistent with the patent and copyright first sale doctrines, as well. 17 U.S.C. §109; *United States v. Wise*, 550 F.2d 1180, 1187 (9th Cir. 1977); *Adams v. Burks*, 84 U.S. (Wall.) 453, 456, 21 L.Ed. 700, 703 (1873); *United States v. Univis Lens Co.*, 316 U.S. 241, 250, 86 L.Ed. 1408, 1418 (1942). *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), cited by Petitioner, is not inconsistent. In that case, the hospital purchaser of radiation equipment sent the used equipment to be reconditioned, despite the fact that the patentee specified the equipment was for "single patient use only," due to contamination considerations. The Federal Circuit found: (1) that a "conditional sale" of a patented article based on such safety considerations is enforceable; and (2) if the condition was properly imposed on the purchaser, reconditioning may be repair of an unlicensed device amounting to patent infringement. *Id.* at 709.

confusion (no matter how caused), not on a defendant's prohibited "uses." Petition at 9-10.

The fact that a number of lower federal decisions have found additional facts, besides mere reselling, which created an exception to the first sale doctrine, does not in any way place the Ninth Circuit's decision at odds with those of its sister courts. The Ninth Circuit expressly recognized that there are "well-defined" fact-based exceptions to the doctrine in cases where the challenged use consisted of acts that were something more than "merely stocking and reselling genuine trademarked products." *Sebastian*, 53 F.3d at 1075, 1076.

Cases from the other circuits are consonant with this view. *See, e.g., Societe Des Produits Nestle v. Casa Helvetia*, 982 F.2d 633, 640 (1st Cir. 1992)(material difference between plaintiff's goods and those sold by defendant); *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392, 394 (2d Cir. 1986)(infringement where license required inspection and inspection certificate, but neither occurred), cited by Petitioner; *Bill Blass, Ltd. v. Saz Corp.*, 751 F.2d 152, 155 (3d Cir. 1984)(sale of out of fashion clothing by former licensee where license specifically prohibited sales after given date), cited by Petitioner; *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 106 (4th Cir. 1991)(Shell's stringent quality control standards, found necessary to prevent contamination in bulk oil sales, not followed by defendant; Shell did not complain about defendant's resale of SHELL **packaged** goods); *Clairol, Inc. v. Boston Discount Center of Berkeley*, 608 F.2d 1114, 1120 (6th Cir. 1979)(enjoined defendant which sold to consumers products intended for professional use only, because they had insufficient warnings and no instructions for retail consumer

use); *General Elec. Co. v. Speicher*, 877 F.2d 531, 533-4 (7th Cir. 1989)(defendant used plaintiff's trademark on product that was not plaintiff's), cited by Petitioner; *Bandag, Inc. v. Al Bolser's Tire Stores*, 750 F.2d 903, 916 (Fed. Cir. 1984)(reseller used producer's mark in telephone directory advertisement in a way suggesting it was producer's franchisee), cited by Petitioner; *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F.Supp 131, 133, 136 (D.Colo. 1980) (defendant transported and held COORS beer without the refrigeration necessary for unpasteurized beer, resulting in inferior quality), cited by Amicus COPIAT.

Petitioner's contention that application of the first sale doctrine "supersedes the literal language of the Lanham Act" and permits "a reseller of genuine goods [to] misrepresent facts and even confuse the public as to the source of goods . . . ." (Petition, ¶1) is based on a faulty premise -- that Longs allegedly made misrepresentations, when the record shows Longs did not make **any** representations whatsoever. In this case, the only possible misrepresentation of facts or confusion of the public was that created by Petitioner's **own labeling**.[11] *See* Petitioner's App. C3, C10.

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11 As the trial court found on the evidence, "The point is, they [Longs] can't avoid the confusion the way you [Sebastian] labeled this." App. A15.

B. There Is No Split Among The Circuits Concerning Collective Marks.

The Ninth Circuit correctly held that Petitioner cannot bootstrap its case over the first sale doctrine obstacle by claiming the membership mark, that it placed on its products itself, becomes a misrepresentation of affiliation by Longs. The language of the Lanham Act expressly provides that a collective mark shall have the same effect and provide the same protection as a trademark, thereby making the first sale rule equally applicable to both. *Sebastian,* 53 F.3d at 1075; 15 U.S.C. §1054. As the Ninth Circuit observed, it would be a "remarkable result" to hold that the first sale doctrine, which is applicable to all trademarked goods, does not apply to articles sold under a collective mark. *Sebastian*, 53 F.3d at 1075.

> Nothing in the language or legislative history of the Lanham Act suggests that, by authorizing the registration of marks identifying membership in a lodge, political party, club, or other collective organization, Congress intended to provide producers with a simple and fail-safe method to control the channels of distribution of trademarked products -- a power they had been denied at least since the ruling in *Prestonettes*. In the half century since the Lanham Act was enacted, no court has detected the presence of such a legislative purpose. There is no mention of this possibility in Committee

> hearings or reports, on the floor of Congress, or in subsequent case law or commentary.

Sebastian, 53 F.3d at 1075. Petitioner has pointed to no contrary authority. In fact, by its silence, Petitioner appears to concede that the Ninth Circuit properly interpreted the legislative history concerning collective marks.

C. Petitioner Is Responsible For Any Confusion.

As another basis of its decision, the Ninth Circuit correctly recognized that, because Petitioner itself places the collective mark on its products, it is primarily responsible for any confusion that resulted from the mark's assertion of affiliation. Such owner-generated confusion cannot support a charge of infringement against Longs. *Sebastian*, 53 F.3d at 1076. Again, Petitioner has not cited any contrary authority from any other jurisdiction. Nor is there any "split" among the circuits on this point. A contrary holding would encourage producers to invoke the assistance of the courts in controlling downstream distribution of trademarked products simply by placing a statement on the products that they were being resold only by affiliates of the producer. This would create a loophole in the well-established first sale doctrine that would swallow the entire rule.

Petitioner and other manufacturers seeking to emulate its strategy, should not be encouraged to circumvent the first sale doctrine and use the trademark laws to further their distribution strategies. Therefore, the first sale doctrine is an

appropriate bar to Petitioner's claims of trademark infringement and unfair competition on the facts of this case.

D. Petitioner Cannot Use the Lanham Act to Enjoin Competition It Does Not Like.

In their final effort to create some "conflict" between the decision below and those of this Court and other circuits, Petitioner and Amicus urge that the Ninth Circuit has somehow issued an antitrust ruling, one contrary to this Court's holding in *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36 (1977). *GTE Sylvania* concerned the relationship between a manufacturer and its own dealers, **not** the ability of a manufacturer to control commerce by persons several steps removed from the manufacturer's dealer system. Unlike the instant case, *GTE Sylvania* involved an action under Section 1 of the Sherman Act, 15 U.S.C. §1, challenging a manufacturer's non-price vertical restraints which it imposed by contract upon its distributors. This Court held in *GTE Sylvania* that such non-price vertical restraints -- territorial restrictions in that case -- might violate the Section 1 of the Sherman Act, but only after a "rule of reason" analysis was conducted.

In contrast, the case below did **not** decide any antitrust challenge to Petitioner's distribution agreements. Petitioner neither sued under the Sherman Act nor did the Ninth Circuit rule that any antitrust affirmative defense barred an otherwise proper claim under the Lanham Act.

Indeed, the Ninth Circuit has consistently followed *GTE Sylvania* in cases where an antitrust challenge has been asserted against allegedly competition-restricting

distributorship terms imposed by a manufacturer.[12] The difference here is that Longs was not party to any distributorship agreement with Petitioner. While Petitioner might have been able with impunity to terminate (or sue for breach of contract) any distributor that may have breached the no-resale clause of its distribution agreements, Petitioner chose not to do so for its own economic reasons.[13] That does not mean Petitioner's remedies under the trademark laws should be expanded.

Simply put, all that the Ninth Circuit considered was the viability of Petitioner's trademark infringement action against Longs. The circuit court held, in conformity with the overwhelming weight of authority, that Petitioner cannot bring such a claim against an innocent reseller, as that would allow it to extend its contractual distributorship limitations to parties with whom it lacks any contractual privity.

It is ironic indeed that Petitioner and Amicus COPIAT would rely upon federal antitrust decisions, which limit the use of federal actions to block economic competition, in

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12 *See, e.g., O.S.C. Corp. v. Apple Computer, Inc.*, 792 F.2d 1464, 1468 (9th Cir. 1986); *JBL Enterprises, Inc. v. Jhirmack Enterprises, Inc.*, 698 F.2d 1011, 1014-1015 (9th Cir.), *cert. denied*, 464 U.S. 329, 104 S.Ct. 106, 78 L.Ed 2d 109 (1983); *Sherman v. British Leyland Motors, Ltd.*, 601 F.2d 429, 449 (9th Cir. 1979). As these decisions show, the Ninth Circuit's analysis of antitrust challenges to vertical restraints (not this case) is identical to that taken by other circuits, including *Matrix*, 988 F.2d at 593-594, where the Fifth Circuit Court of Appeals actually did address an antitrust counterclaim.

13 See footnote 2, *supra*. Obviously, Petitioner could not "terminate" Longs or sue Longs for breach of contract. Sebastian's problem with unauthorized sales by its distributors may be so widespread that Sebastian simply cannot afford to terminate wholesalers and retailers who breach the "no-resale" provision of their distribution agreements.

urging the Court to adopt an expansive interpretation of the Trademark Act, so they can use litigation to **shackle** commercial competition which they perceive injures their economic interests as manufacturers. While Petitioners and Amicus pay lip service to "open competition," what they seek here is the right to **enjoin** competition they do not like.

II
The Record Does Not Reveal a Question of Federal Importance.

The instant case involves the arcane area of collective membership marks. This area of the law is relatively undeveloped by the circuit courts, no doubt because collective marks are little used in commercial enterprise. No court of appeals, other than the Ninth Circuit in this case, has yet addressed the use of a collective membership mark placed by a manufacturer on its own products. Certainly no other court has considered the question whether such a use could become a manufacturer's vehicle to keep its products from being sold except by its own distributors.

The purported importance of the question presented by Petitioner could be better evaluated in a future case with a more developed record of actual misappropriation of another's mark, actual misrepresentations, or of reliable evidence of consumer confusion.

CONCLUSION

The well-established first sale doctrine of trademark law permits a merchant to resell a branded product without the trademark owner's consent. The Ninth Circuit's application of this doctrine to the instant case is consistent with the rulings of other circuit courts and this Court. The Petition should therefore be denied.

Respectfully submitted,

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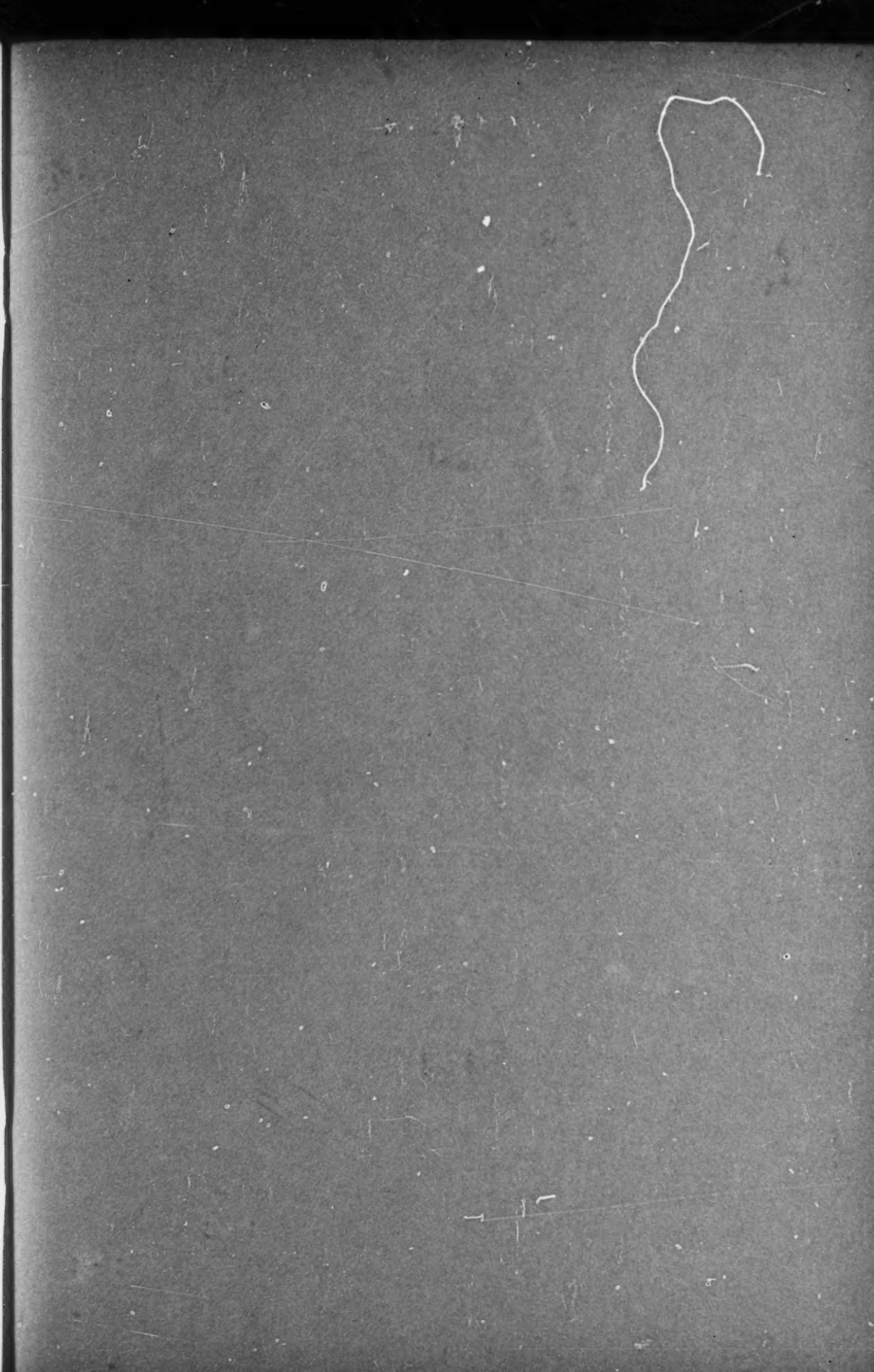

APPENDIX A

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

BEFORE THE HONORABLE WILLIAM D. KELLER,
JUDGE PRESIDING

SEBASTIAN INTERNATIONAL INCORPORATED,	)	
Plaintiff,	)	
vs.	)	CASE NO.: 93-2891 WDK
LONG'S DRUG STORES CORPORATION,	)	
Defendants.	)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS
LOS ANGELES, CALIFORNIA
MONDAY, JANUARY 31, 1994

6:00 P.M.

* * *

THE COURT: Well, thank you for your patience. I hoped to be with you a little sooner.

You have a difficult case here, factually, in my view.

First of all, I understand that you have not received a copy of the minute order of January 26, 1994 refusing to certify. I will see that it goes out tomorrow. I don't think

we would be at this stage if I had agreed to certify. The order will go out tomorrow.

The second thing is this: Let me preface all this by saying that different people come at this, and I'm sure would come at this situation here from diametrically opposed views. And I did appreciate Sebastian's marketing approach, at least as I perceive it, that approach being to create a cachet, and with it, an attendant ability to sell their product at a premium. It's a marketing strategy that seemingly has worked, and more power to them.

However, the question before the Court now, it seems to me, evolves around the unfair competition matter, I believe it is, and the likelihood of confusion.

The collective mark, as it is used, does create a likelihood of confusion. And the statistics that have been [p. 4] given to the Court, or provided to the Court by the plaintiff, seemingly indicate that -- I think it was 38 percent stated that they thought there was some affiliation between Long's and the plaintiff. But the fact that there is this creation of a likelihood of confusion doesn't end the analysis.

It's my perception that plaintiff, in effect -- my notes are not the highest form of clarity.

Let me approach this again. I'm going to hang in there with my analysis regarding Long's and their approach. I do, frankly, identify with that, but that doesn't end the analysis.

To cut right to the heart of the matter, I think the analysis evolves around the so-called First Sale Doctrine. And in that regard, in my view, there are two purposes of this First Sale Doctrine, the first of which to prevent

confusion. The second is, though not stated, to promote the free alienation of goods. It favors free access to goods, and in turn, the consumer.

I think, as I said a moment ago, that there is a likelihood of confusion, as witnessed by the 38 percent study, and just common sense. But I think at the same time the plaintiff creates the confusion in a manner that is going to restrain the free alienation of goods. This is true, because the plaintiff controls the goods by their [p. 5] labeling.

The conclusion would be that the First Sale Doctrine does apply, to hold otherwise what effectively eliminates discounting in high-end goods. And as such, I don't think that there is a likelihood of success on the merits when it comes to the First Sale Doctrine.

Basically I think, under the circumstances, that's a rather odd conclusion, officially. But I think when you analyze it further, at the same time there is a likelihood of confusion. That confusion is contributed to or caused, if you will, by the plaintiff, and as such, the First Sale Doctrine does apply. And the hold otherwise, as I said a moment ago, would eliminate discounting in these high-end goods. I don't think you can do that.

You know. I'll tell you, this thing is so mucked up the way these converging issues are --

MR. ZAITLEN: Your Honor, perhaps if you heard from the parties --

THE COURT: Not yet. [p. 6]

* * *

I will put out a brief minute order tomorrow, but it's a bit convoluted, and I'm going to take another run at it, striking the first part of the analysis.

You are seeking to establish, the plaintiff, trademark infringement and unfair competition. And in that regard, the elements, as I perceive them, are misrepresentation as to affiliation, which causes consumer confusion. And the plaintiff says, "Well, that's it. I can [p. 7] carry the day here, based upon the studies I've shown you. And there is a likelihood of success on the merits, and the attendant damage," et cetera.

The question really in this case, in my view, centers on the likelihood of success on the merits. And I think it is, as I said a moment ago, a bit convoluted.

The defendant, as I understand it, counters the argument that is made by the plaintiff by invoking the so-called First Sale Doctrine. And that First Sale Doctrine is set forth in NEC electronics -- that's letter caps, *NEC Electronics vs. Cal Circuit ABCO*, 810 F.2d. 1506 and 1509.

And that doctrine says "Trademark law generally does not apply to the sale of genuine goods bearing a true trademark, even though such sale is without the mark owner's consent. Once a trademark owner sells his product, the buyer ordinarily may resell the product under the original mark, without incurring any trademark law liability. The reason is that trademark law is designed to prevent sellers from confusing or deceiving consumers about the origin or make of a product, which confusion ordinarily does not exist when a genuine article bearing a true mark is sold."

Now, as I understand it, the rejoinder of the plaintiff to the defendant's contention that the First Sale Doctrine

comes into play, and they are entitled to sell as they are doing, is that indeed in the record there is ample [p. 8] evidence to sustain a finding of confusion an the part of the consumer. And there may well be ample evidence.

But the fact of the matter is I think the analysis is that it isn't the defendant who is engendering the confusion. Instead, it's the plaintiff, by the manner in which they labeled. And, associatedly, the purpose of this doctrine is to promote the free alienation of goods.

The defendant argues that the plaintiff can't engender confusion, thus blunting the First Sale Doctrine. And I'm inclined to believe that the defendant is correct in that the cases cited by the plaintiff are distinguishable.

That gets me back to where I started at the onset of this hearing. And that is I understand the marketing approach, I think, of the plaintiff, the cachet marketing approach, and it's a perfectly proper approach. But I don't think that you can avoid the subsequent sale of the original product. And the First Sale Doctrine can, interestingly enough, despite the consumer confusion, be legally implicated by the defendant to defeat your trademark and unfair competition claims.

So what I'm telling you is, hopefully a little more clearly -- albeit you may differ with me -- hopefully a little more clearly, that although I understand where you are coming from, I don't think you can do it here. Since you can't do it, it seems to me the preliminary injunction [p. 9] should be denied.

Just a second, I'll hear from you.

There is a further point to be made in this regard, and it was something I referred to a little earlier. And that is

when you have a high-end manufacturer, such as the plaintiff, if you permitted the high-end manufacturer to use a collective mark, as was done here, to defeat the First Sale Doctrine, you basically would enshrine the high-end sellers and defeat a purpose, a very distinct purpose of the First Sale Doctrine, and to the disadvantage of the consumer.

I don't think that's what all this law is about here, and that's why I think it plays out the way I'm telling it.

And the last point I have written down here is this *Lepage* case, 851 F.2d at 351. The questionability of the collective mark being used by a corporation; I don't know that you can.

I think some good lawyering went in to trying to blunt a very significant problem that appears to be extant in the community. I think there are other ways to go about it, namely probably suing your distributors who are breaching their contract with you, but I don't think you can do it the way you are doing it here.

I do want to hear from you, but that is hopefully a [p. 10] little more clear exposition of the thinking that goes into this preliminary decision denying the preliminary injunction.

* * *

MR. ZAITLEN: * * *

I have to say, the second time around, it was clear to me. But I have to say, with all due respect, I think there was some factual mistakes that the Court is obviously relying upon, and unfortunately some legal ones. I really do believe that.

The first question was once the Court determines that there is a likelihood of confusion, once that determination is made, that overrides the First Sale Doctrine. Once there is a likelihood of confusion, because consumers are being confused, how do you protect consumers from being confused? [p. 11]

Now, here are the cases that support that proposition: *Matrix*, which is a case very close to ours; *Stormer*, which relied upon the sale of authentic goods. *JC Penney* relied on the sale of authentic goods, but consumers are being confused.

The *Matrix* case, which is probably the closest case on point, is readily distinguishable in this case. *Matrix* hires somebody who sold their product exclusively through salons.

The Court has mentioned the First Sale Doctrine, and that's the case that the defendant has thrown up basically throughout their brief.

Take a look at *Matrix*, number one. The Court specifically comments they had no agreements with any of their salons.

We personally visited 51,000 -- in fact, 55,000 salons, and had them sign agreements.

The *Matrix* case said that they found no evidence -- no evidence -- to support the contention that there was confusion. We conducted a survey. The Court cemented that there was a likelihood of confusion based upon the survey; that's what the survey showed. And that's what the Court in *Matrix* didn't find. They found no likelihood of confusion.

Number 3, we have a collective membership mark. We put it in our stores, we put it in our ads, we put it on our

[p. 12] products. *Matrix* was strictly a trademark case, not a collective membership mark case. The First Sale Doctrine, to the extent that it applies, doesn't cover this kind of situation.

If the Court has any questions, it can interrupt me at any time.

The Court commented that confusion was created by the plaintiff.

THE COURT: Well, you put the mark on there.

MR. ZAITLEN: We did. But that's not a crime, your Honor.

THE COURT: I know that.

MR. ZAITLEN: We put the mark on it, and who created confusion? Long's.

THE COURT: If they are going to embark into sales, which normally would be appropriate --

MR. ZAITLEN: Which normally occurs only in salons.

THE COURT: -- you've boxed them.

MR. ZAITLEN: That's right.

THE COURT: The question becomes, in the interests of the consumer, and given the purpose of the First Sale Doctrine, can you box them in like that? That's really the issue here.

MR. ZAITLEN: That's correct, your Honor.

Guess who charges higher prices, us or them? They [p. 13] do, not us. So the comment that the Court made that this is a scheme --

THE COURT: I didn't say "scheme."

MR. ZAITLEN: Well, that's their word.

THE COURT: I didn't use "scheme."

MR. ZAITLEN: No, that's their -- "sham," I think that's their word.

THE COURT: I think it is, arguably, a legitimate response to what they are doing. And the question is is it or isn't it, and that's what I've been flailing around here with in chambers over.

MR. ZAITLEN: Well, the fact of the matter is that Long's, who was selling the goods, shouldn't have had their hands on it in the first place, because it comes from people who should not be selling to them.

THE COURT: It's probably what they call "gray market"; okay?

MR. ZAITLEN: That's sort of like a gray market, but in this particular case, they have contracts with everybody, and they know about the contracts. And we have a collective membership mark and a collective membership program, which is a lot different than gray market.

They charge, by and large, if you average it out, a lot more than we charge. So this isn't part of a high-priced maintenance program, that's not the purpose of [p. 14] this collective membership program. They charge higher prices.

Why do we have the collective membership mark program? Because it helps maintain the quality of this product.

If we have a problem with recalls, we know exactly who we sold it to. Every one of our salons is trained in the use of this product. We don't train Long's.

When a consumer has a problem and they go to Long's, how could they ask, "Can I use this with this?" Maybe if they had a druggist -- they have pharmacists at Long's, but not registered cosmetologists, which you have to

be in order to become a member of the collective membership program. So it's not part of a scheme to maintain high prices.

Now, you might say, "Well, why don't we sue distributors? Why don't we sue salons?"

THE COURT: I did say that.

MR. ZAITLEN: And the answer is we do, we do.

You might say, "How do they get the product if we sue these people?" And the answer is, in many instances, that salons are told by people with a lot of money that this product is being sold offshore, so sell a lot to us, and we will sell it offshore, and you won't get into any problems. It's hard to track down where the source is coming from when [p. 15] you have 55,000 outlets for your product. And to figure out which one is selling to the diverters is difficult.

Let's shift just for a minute.

THE COURT: It's easier to sue the diverters is what you are saying.

MR. ZAITLEN: We don't know who they are.

THE COURT: I'm sorry. It's easier to sue the second tier.

MR. ZAITLEN: Yes, because it shows up in their drug stores.

Let's talk about Long's just for a moment.

They get the product hit and miss, because they are buying it through a diverter. That means it shows up in some stores and not in others. They make a point in their papers that there is some great consumer loyalty, and they are going to be irreparably injured because of the fact their stores don't see a lot of product, and it's carried hit and miss.

THE COURT: It's because their high-end stores carry it.

MR. ZAITLEN: Well, Long's is claiming they sold it for less, but their own declaration showed they sold it for more. But aside from that problem, Long's is selling it, and perhaps creating the impression with consumers that, "Hey, you are buying it at Long's, you are getting it for [p. 16] less than at the salons." The reality is you are paying more there than at the salons, which are the legitimate outlets that we have by contract.

With every salon, if you don't sign the contract, you don't get the product. It's part of an overall marketing program, and it has very little to do with the price. Because if it did, we would sell to people who didn't become members of the collective.

The reality is that we don't sell to anybody who doesn't sign the agreement. You have to be a registered cosmetologist in order to become a member, and you have to be trained in the product in order to use it, and what other products can be used with it. And if you meet all those requirements, then and only then you get to be a member of the collective.

Long's never signed it. Long's doesn't have a registered cosmetologist working on staff, at least that I know about. They sell it for more than us, they are violating our collective membership mark rights, registered with the United States Patent and Trademark Office.

THE COURT: What about the strength of your collective membership mark rights as a corporation.

MR. ZAITLEN: Let's talk about that, the strength of the mark.

Aside from visiting the individual salons, salon by [p. 17] salon, with the amount of effort and money that took -- the $4 million dollars that were spent in 1993 -- not every single salon had the collective membership mark, but many of them did. Aside from that, I think that's a pretty strong mark, the registration of the mark with the Patent Office, which the Patent and Trademark Office assured was valid.

Now, there is a question at the very end about whether Sebastian can own the mark. To answer that, there was a change in the law in 1988 that held -- the Trademark Manual Examining Procedure, TMEP, section 1304.05 -- "A collective membership mark may be owned by someone other than the collective organization," like us, "whose members use the mark. The owner might not itself be a part the collective organization.

"An example is a business corporation," like us, "which forms a club," which we did, "for persons meeting certain qualifications," which we have, and they are extensive, "and in which formed club arranges to retain control of the group and of the mark," which we have, because they signed a separate trademark license agreement as part of the agreement that you have to have all the qualifications.

"The corporation which retained control of the mark is the owner of the mark, and is entitled to apply for and register the mark," which we did. And they cite a case [p. 18] here, and I'll read the case into the record. It's *In re Stencel Aero Engineering Corp*, it's a United States Patent Quarterly case, your Honor.

I have a copy of the case. I think I faxed a copy, but anyways --

MS. PERRY: What's the date on that?

MR. ZAITLEN: The TMEP was 1988.

MS. PERRY: No, the *Stencel* case.

THE CLERK: 1971.

MS. PERRY: 1971.

MR. ZAITLEN: This is at the end of the case that I'm about to tell you, your Honor, and it is a case that's cited at the end of the Trademark Manual Examining Procedure book; my edition is May of 1993.

At section 1304.05, after the part that I just read for you, it ends with *In re Stencel* [citation omitted]. That's the case.

My understanding is before this section, there was an issue in the law of whether a corporation such as Sebastian can apply for the mark. And this basically clarified that a company like Sebastian can indeed apply, and we did indeed apply. These facts were disclosed to the Patent and Trademark Office, and they issued the mark to us.

I did misspeak, your Honor. [p. 19]

This 1304.05 section was not the section that was added in the '88 amendment, so this has been the law that a company like Sebastian could apply for and register a collective membership mark. The '88 amendment means that we could use this mark on a product.

We applied for the mark. I think TMEP makes it very clear that we are entitled to apply for the mark. The trademark office found the mark and the trademark application in proper form. It issued us two registration certificates.

We have used the collective membership mark in salons and ads, and other forms of advertising, and we also

put it on the product. The *Boise* case -- and there is other cases cited in our brief -- specifically held that there is no problem in putting a collective membership mark on a product, which is what we do. They use it -- Long's -- to sell the product; they are not a member of the collective. They create the confusion because people are used to seeing these kind of products only sold through salons.

The argument that they have been selling it for seven years is one of the great red herrings of all time. They sell it hit and miss. When the diverter gets them, they put it on the shelves. When they run out of the product, they don't carry it any longer. So it's one of these things this Long's has it, they sell it. Then maybe a [p. 20] month, two months, maybe six months later, then Long's has it again. All the Long's Drug stores in California, the vast majority don't carry this product, so it's a hit-and-miss type of arrangement.

People over the years -- certainly since we have initiated this collective membership mark program -- since that program has been instituted, consumers have come to recognize that when they see the collective membership mark, they know that this person is a member of the collective, and has agreed to certain rules and regulations set up by the collective. And your Honor, this is a clear case of collective membership mark infringement.

The First Sale Doctrine does not apply to this type of situation. The First Sale Doctrine applies when there hasn't been any confusion like there was -- like the Court didn't find in *Matrix*, but there is here.

THE COURT: You know, the problem I'm having is a perception from that one statement. That's why it's difficult.

MR. ZAITLEN: It's a difficult picture.

THE COURT: That's why we have spent this time going back and forth into chambers, and that's why we've got a melt down from me today.

So what I'm saying to you is that normally you wouldn't implicate the First Sale Doctrine if there wasn't [p. 21] attendant with this the so-called first sale confusion.

MR. ZAITLEN: Right.

THE COURT: And the normal case is -- is the defendant creating the confusion, the first seller creating the confusion, given the context of the sale? The point is, they can't avoid the confusion the way you labeled this. And if I validate the marketing approach that you've used, I eviscerate the First Sale Doctrine, which was created to protect the consumer. That's the thing that's concerning me.

MR. ZAITLEN: There are three cases that are in our papers. The *Stormer* case, the *JC Penney* case, and the *Matrix* case. --

THE COURT: I think you argued that already.

What the law clerk points out is the cases that you are citing really are distinguishable.

Let me ask the defendant, am I missing your theory?

MS. PERRY: No, your Honor. You have expressed it just exactly the way we would have you understand it from our papers. That if you were to grant this exemption, it would be a radical departure from the trademark laws that have existed for years and years. It's never before been

actionable to resell authentic products, and this would make it actionable.

THE COURT: Well, it would be actionable if there [p. 22] is attendant confusion.

MS. PERRY: If the products had been adulterated in some way, or the defendant is holding itself out to be affiliated with the plaintiff in some way, which isn't true in this case, of course. We are just simply reselling the product.

* * *

MR. ZAITLEN: My brief retort, your Honor, is that in Long's papers they are saying that so long as there is no affiliation, there is no likely confusion. The survey showed the consumers thought there was an affiliation. The consumers thought that when they had the collective membership mark, that Long's was affiliated with Sebastian. It wasn't just --

THE COURT: Again, the problem is, I grant you, that there was a substantial percentage of people that saw the affiliation. But the question is, can you, by your labeling with a collective mark label, create the perception of affiliation? Because the bugaboo is that if you can do that, there is going to be a bandwagon from here to San Francisco, where she comes from, of companies doing this [p. 23] very same thing, because they can make an end run at the First Sale Doctrine of high-end goods. That's what the concern is.

Look, I'm not going to be a social pioneer here, I'm just telling you that that would appear to be the problem that

we are facing here. And I can't just simplistically look at it and say the First Sale Doctrine doesn't apply. That's the problem.

MR. ZAITLEN: In order for someone with a high-end good to do that, of course they have to register the mark, then they have to go out and sign up all the these outlets, and have all of these requirements. And I assume that they would otherwise be able to qualify like we have with cosmetology requirements, training requirements, et cetera, et cetera. I don't know that there is going to be a bandwagon of people that could really do all those things.

THE COURT: Well, it may not be a bandwagon, maybe I'm imagining more people or more manufacturers than not.

You haven't said that I was wrong, that your approach potentiates being able to monopolize -- perhaps not in a true sense, but in a lay sense -- to monopolize that high-end market, and basically eliminate what has been distinctly carved out as effectively an exception to the norm in the trademark unlawful competition area. That's the issue, I grant you. [p. 24]

I'm telling you, some people thrive over this issue in the Court of Appeals. I'll tell you, there isn't any doubt about it; it is a very unusual issue.

MR. ZAITLEN: It's a really interesting issue, your Honor. And this is precisely why I think the injunction should be granted. Because Sebastian is not Lever Brothers, or Procter & Gamble.

THE COURT: They are, relatively speaking -- they are not relatively in the same category that Long's is

probably. They carved out a little niche market, and this is why I said I'm sympathetic with you.

MR. ZAITLEN: They deserve protection. They are not trying to maintain high prices; Long's beats them in that category. They are trying to protect their little and relatively unique marketing scheme.

I now we are getting redundant; the hour is late. I guess the last point, your Honor, is that one of the problems being created by this sale by Long's is, aside from consumer confusion, one of the little other things that came up in the survey is consumers think -- six percent of the consumers that were surveyed thought that's the products that were being sold by Long's weren't authentic to begin with. They are seconds; they are rejects. They were not --

THE COURT: That is a danger, that perception, and that's a very -- that does give me concern. That here you [p. 25] create this perception -- and perhaps it's a very well-deserved perception -- but through your marketing efforts, you create this perception that you are high end. And along comes Long's, and people say, "How in the world are you selling this at Long's? Something got to be wrong."

MR. ZAITLEN: Right.

THE COURT: And when they do that, I grant you, there is a problem there.

If I could do something about requiring a disclaimer on their part, and not just a verbal disclaimer, I'm talking about something like you are not going to be representing in the milieux in which you sell, you are not going impact adversely their product.

I'm going to give the consumer some protection. I'm going to give them real protection.

You are not going to represent to the public that they -- given the setting in which you sell -- that they are getting a deal, basically, and then, in effect, these consumers that I'm worried about protecting, and which the law is worried about protecting, more importantly, as witnessed by the First Sale Doctrine, these customers are getting it right in the ear.

Now, give me a response to that. [p. 26]

* * *

MS. PERRY: * * *

With respect to the price question, I just wanted to point out to the Court that Sebastian compared a Brentwood Long's store with a Culver City salon. And I think really if you took salons in an up-scale neighborhood, and compared them with at Long's prices, you would find what we found in our investigation, and what we pointed out in our declarations, that Long's prices generally are the same.

THE COURT: You are saying, look, it's just not an actual amount. You are comparing apples and oranges here. You have a Brentwood location compared to Culver City, but they are nice people in both communities, but they are not in this same income level.

MS. PERRY: They don't have the same rents. It's a high-rent area.

THE COURT: Let's assume, for the sake of the conversation, that I am comparing Brentwood with Brentwood. Then what would be your response?

MS. PERRY: First of all, there was a very low percentage of confusion. McCarthy himself said that anything below 10 percent can be actually evidence of no

confusion. They have got a six percent level of people [p. 27] thinking that these products aren't authentic. That seems like a low percentage.

In other words, their survey didn't measure whether people were confused because of the collective mark an the label, or because of this warning that they got on their label that says, "Caution: Don't buy this unless you buy it at a salon." That's enough to make anybody think it's not authentic. So again, it's their mislabeling drawing consumers to this conclusion, not anything that Long's is doing.

THE COURT: Are you going to fashion something where I require a written disclaimer, while denying the injunction?

You can't. It's going to have to be -- I have to find that you are going to prevail to get you anywhere. I want to protect you, but I want to be consistent with the First Sale Doctrine, also. So how do I protect you?

MR. ZAITLEN: Well, we're asking for equitable relief, your Honor. And my understanding of the Court's duty is to protect consumers.

THE COURT: I'm going to be consistent. I'm not here to say, "Don't worry, I'm going to take care of you, consumers, darn the law," I'm not saying that.

MR. ZAITLEN: I understand.

THE COURT: But I don't think I can get to saying [p. 28] to them you are not going to get away with something like that, you are going to -- excuse me.

I don't think I can get to that without finding a likelihood of success on the merits.

MR. ZAITLEN: Quite frankly, your Honor, I don't know the answer to that question. I think you may be able

to fashion that kind of relief, and still deny a broad injunction, or broad injunctive relief to that --

THE COURT: That would be if I were in the injunctive mode, and I could do what you are talking about. I've got to get there. And the problem is, getting there is impacted by the analysis I shared with you, albeit you say "Well, you can revisit this analysis, in view of what the actuality is, and the consumer is being disserved rather than served."

MR. ZAITLEN: Your Honor, perhaps there is this:

As you know, in order for us to be entitled to any kind of relief, you can say that there are serious questions. You can balance the likelihood of success on the merits.

THE COURT: You take the other form of the analysis and say --

MR. ZAITLEN: That's right. You can say "Well, we have a lot of" --

THE COURT: You got a lot of damage and -- [p. 29]

MR. ZAITLEN: That's correct.

THE COURT: And then a fair case otherwise.

MR. ZAITLEN: Irreparable damage.

THE COURT: A fair case analysis, and there ends the analysis.

MR. ZAITLEN: And, therefore, some limited relief that's appropriate in the form of a limited disclaimer.

MS. PERRY: Your Honor, I have a problem with their claiming that they're irreparably damaged. This has been going on for seven years, and the only thing that's changed in the last seven years is that he put a little tiny

mark on the back of their product. Everything else is the same.

Long's has been selling this for the last seven years. There is absolutely no evidence that consumers have been misled in any way, no defective products have been sold. No one's complained to them that -- as far as we know -- that they haven't gotten service. Nothing has changed in the last seven years. I can't imagine how they can claim that they have been irreparably damaged.

MR. ZAITLEN: The collective membership mark has certainly not been around for seven years. We put them on notice seven years ago that they were interfering with our contractual relationships because they are getting the product through diverters.

After the collective membership program was put [p. 30] into effect, after the mark was registered, very shortly thereafter we found out they were carrying products that had the selective mark on them. In our view, they were representing themselves as being a member of the collective, and shortly thereafter we sued them.

THE COURT: We are going to be in recess.

Do I have a phone number for each of you in case we need to reach you for a telephone conference tomorrow?

I have everybody's number.

MS. PERRY: Okay, good.

THE COURT: If we need you tomorrow, I'll set up a telephone conference. I don't know that we will.

I do thank you for your patience, and the law clerk and I will readdress this tomorrow, after we don't have 11 hours under our belt.

We will be in recess. Thank you.